


same time reducing the deficit, if that were its real agenda. But two further points about tax subsidies might be noted.

To protect taxpayers from "waste, fraud and abuse," when the government provides aid to its poorest citizens it creates extensive sets of rules and regulations requiring the poor to disclose even the most intimate details of their personal lives in exchange for government assistance. Yet when the government assists its largest corporations with billions of dollars of tax breaks, the commitment to protect the rest of us from "waste, fraud and abuse" — so piously ex-

pressed when directed at the poor — suddenly vanishes. It is impossible to determine which corporations benefited from particular tax expenditures, let alone how much additional employment or other economic benefit we might have received as a result of providing them with these hand-outs. In fact the government does not even publish the cost of these business tax spending programs.

Business interests sometimes argue that repealing these subsidies would amount to tax increases on business, not spending cuts. But of course that is nonsense. Cutting these programs is no more a tax increase

than cutting direct farm subsidies is a tax increase for farmers, or cutting unemployment insurance is a tax increase for unemployed people. These subsidies just happen to be delivered indirectly by allowing the recipients to offset them against their tax liability, but otherwise they are absolutely equivalent to direct spending programs. Collectively, these subsidies are costing the federal treasury well over \$5 billion annually.

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## DEFICITS AND DEBTS: REDEFINING THE COUNTRY AND THE POLICY AGENDA

### Managing the Transition to a New Fiscal Federalism Poses Big Challenge for Ottawa

by Donald J. Savoie

The ties that bind Canada may be varied but there is one that has been prominent for the past 35 years — that is, federal transfer payments. To be sure, some politicians of the day saw those payments as the underpinnings of a caring society and as an investment in Canada's mutual insurance policy. However, there is no denying that it was also the price the centre had to pay to develop and protect Canada's industrial heartland.

Government deficits and debts, together with the requirements of the global economy, are now playing havoc with our mutual insurance policy. As each region becomes inserted differently into the global economy, their links with the outside world will become more important relative to their economic linkages within Canada. The result is that the economic well-being of each Canadian region will depend less and less on that of the others. These developments alone are push-

ing the industrial heartland to hang question marks alongside a number of federal transfer programs both to regions and to individuals. Why should it continue to support transfer programs to regions that are no

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*"People in British Columbia will be asking why they should continue to finance equalization payments to keep universities, hospitals and schools in Newfoundland or Nova Scotia open while they have to close some of their own."*

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longer captive markets for its manufactured goods?

The global economy is also imposing a new discipline on how governments manage their finances. It is no longer possible to have an expenditure budget or a government debt completely out of sync with those of other nations. The size of the public debt, the efficiency of tax systems,

and the level of taxation and interest rates determine in part a country's ability to play on a world stage and its economy to be competitive.

The point here is that the global economy would threaten Canada's mutual insurance policy even if the federal treasury and those of the wealthier provinces were relatively healthy. Such is not the case. Ottawa's fiscal problems are well documented: the ratio of the federal debt to GDP has risen from a post-war low of 20 percent to well over 50 percent. Despite significant tax increases, the introduction of new taxes and the promise of a "balanced budget," Ottawa's annual deficit remains at over \$30 billion a year, as it has for the past eight years or so. The cost of servicing the federal debt now accounts for about 40 percent of all the revenues Ottawa takes in every year.

Until a few years ago, this was essentially an Ottawa problem. It no longer is. All provincial governments, including those from the tra-

## KIM CAMPBELL: THE PIERRE TRUDEAU OF WESTERN CANADA

by Roger Gibbins

At a Montreal campaign meeting on March 26, Progressive Conservative leadership candidate Kim Campbell drew attention to the strong sense of western alienation she feels as a British Columbian and suggested that she could, as a consequence, understand the sovereignty aspirations of Quebeckers.

Campbell's statement is interesting in several respects. First, it implies her intent to maintain the bridge that Brian Mulroney built between Quebec nationalism and western alienation, a bridge that played an important role in his success. Forget for the moment that Quebec nationalists and alienated westerners coexist in considerable tension, that the latter draw a good deal of their anger from the former, and that the former are at best indifferent to the aspirations of the west. The fact remains that Mulroney held this unlikely coalition together through two very successful election campaigns and that Campbell stands a reasonable chance of doing so for a third.

In large part, Mulroney's success stemmed from his fidelity to nationalist aspirations in Quebec and the willingness of his western colleagues to stomach that fidelity in exchange for power. Campbell's long-term strategy, however, is likely to be more reminiscent of Pierre Trudeau than of Brian Mulroney.

### AN ALIENATED WESTERNER?

This suggestion relates to the second interesting aspect of Campbell's Montreal speech and that was her

ditionally wealthier provinces, are looking at "fiscal nightmares" and "permanent deficits." The governments of Newfoundland, Saskatchewan, and Nova Scotia no longer have a choice — they have to introduce hardline budgets or risk losing the confidence of the financial markets. Even the governments of Ontario and Alberta have seen their deficits soar and their credit ratings drop. A growing number of provincial governments are calling for a "national" effort to get at the "fiscal crisis," with some now asking for a federal-provincial meeting to discuss the issue.

There is no denying that the challenges ahead for both the federal and the provincial governments will be

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*"Ontario may well be calling for a fundamental rethinking of Canadian fiscal federalism since both its unemployment rate and its debt as a percentage of gross provincial product are getting close to New Brunswick figures. The implications for a whole range of public policy issues are obvious."*

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particularly difficult. There is a widely held perception that the revenue side has been pretty well tapped to the limit. Indeed, there is some evidence that a tax revolt is underway with people turning to illegal means to avoid paying taxes — especially the GST.

Shaping Canada's mutual insurance policy was relatively easy. In Ottawa's attempt to attenuate the sting of economic misfortune, however, federal and provincial spending and even revenues became entangled with each other. In time, federal transfer payments of one kind or another became known as the "glue that holds the nation together."

Managing the disentanglement and cutting back federal transfer

payments will be another story and considerably more difficult. The transition to the new fiscal federalism will not only prove difficult to manage but will very likely overshadow many of the issues (such as a triple E Senate, special status, federal-provincial coordinating mechanisms) that have lately dominated the country's constitutional agenda. The likely elimination of thousands of public service jobs, the elimination of some services, and the closing down of schools, hospitals, and perhaps universities are potentially explosive issues. People would understand it in terms of their pocket books — and it could be a great deal easier to grasp than the finer points of constitutional principles.

Such developments are likely to fuel regional and provincial nationalism. People in British Columbia will be asking why they should continue to finance equalization payments to keep universities, hospitals, and schools in Newfoundland or Nova Scotia open while they have to close some of their own. Ontario has recently been asking for generous stabilization payments from Ottawa, knowing full well that the federal government can ill afford it. Indeed, Ontario may well be calling for a fundamental rethinking of Canadian fiscal federalism since both its unemployment rate and its debt as a percentage of gross provincial product are getting close to New Brunswick figures. The implications for a whole range of public policy issues are obvious. How, for example, do you redefine Canadian regional development policy when there are, at least on the fiscal side, no longer any "have" regions?

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